

TENNESSEE REGULATORY AUTHORITY

Sara Kyle, Chairman
Lynn Greer, Director
Melvin Malone, Director



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REGULATORY AUTH.
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OFFICE OF THE
EXECUTIVE SECRETARY

460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Via Email

June 13, 2001

Mrs. Pat Childers
Manager-Rates & Regulatory Affairs
United Cities Gas Company
810 Crescent Centre Drive, Suite 600
Franklin, Tennessee 37067-6226

Re: Petition of United Cities Gas Company for Expedited Approval of Authority to
Purchase Futures contracts for the Weather Heating Season of 2001-2002
on an Experimental Basis.
TRA Docket No. 01-00510

Dear Ms. Childers:

In keeping with your request to expedite this petition, we are requesting the following information and require your responses no later than Thursday, June 14, 2001.

1. United Cities is requesting that this long-term contract not be included in the Performance Based Ratemaking plan (PBR). Please discuss the risk and reward tradeoffs under the existing gas purchasing procedures compared to the risk and reward tradeoffs of the proposed procedures.
2. Your examples state that you rely on storage to fulfill 42% of your winter gas requirements. Therefore, provide five years (1996 through 2000) of storage data, detailing injection volumes and cost per MCF. What is your normal storage level going into the winter season? Explain your future plans for continued storage capacity.
3. What has been your normal gas purchasing procedures? For example, have there been any long-term gas contracts purchased before? How many purchase contracts are normally executed during the five winter months? Have most gas purchases in the past been spot market gas?
4. Provide a schedule detailing your gas purchases (costs) for the summer and winter months. Please list frequency of purchases and costs per MCF. As a corollary to your purchases, provide gas futures costs quoted in July for the following January for the last five years. This will provide a comparison between the futures price of gas (six months prior to actual purchase) and the actual price paid for that purchase. Provide this graphically with futures on one line and actual costs on another line.
5. Have you had any affiliate purchasing transactions for any non-regulated company in the past? Do you anticipate any during this experimental year? If so, provide steps to assure the TRA that your ratepayers will receive the lowest prices.

6. Do historical natural gas prices indicate a seasonal fluctuation in prices? Please provide a chart and table of values showing actual monthly commodity gas prices over the last ten years or similar supporting documentation to support this conclusion.
7. What is the extent of your experience in working with gas futures?
8. Have you proposed a similar hedging mechanism in other states? If so, summarize by state, what was proposed, when it was submitted, the status of the proposal and what formal or informal action was taken by each state. Also, provide any orders, rulings or findings issued by the states.
9. Currently, the accounting procedures for recording gas costs are as follows. Under the terms of the PGA Rule, gas purchase costs are debited to the deferred gas cost account (Account 191) and the ratepayer reimburses the Company for 100% of these costs. Under the PBR, gas procurement transactions are compared to a predetermined benchmark and the ratepayer reimburses the Company 50% of any net gains and is credited for 50% of any net losses. With respect to the Company's proposal. Please provide a detailed explanation of the accounting procedures (accounting entries) that will be made under the proposed hedging contract.
10. Will all gas purchase transactions be debited to the deferred gas cost account, as they are now? Then, when the Company receives payment for the savings, will the deferred gas cost account be credited? If not, explain how the savings are passed on to the ratepayer.

Again, in order to provide an expedited decision; please provide information by Thursday, June 14. This is Data Request No. 1. Please respond by email, followed by hard copy. Copy Dan McCormac and David McClanahan.

Sincerely,



David Waddell
Executive Director

c: Dan McCormac, Chief – Energy and Water Division
Pat Murphy, Senior Analyst
David McClanahan
Timothy Phillips, Consumer Advocate and Protection

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